

VILLAGE OF HESPERIA
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2006

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1988, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Hesperia	County Newaygo
Audit Date March 31, 2006	Opinion Date August 28, 2006	Date Accountant Report Submitted to State: SEPTEMBER 26, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)
Calvin D. Meeusen, C.P.A., PLLC

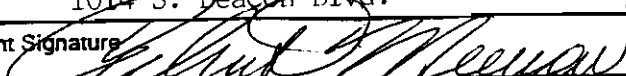
Street Address
1014 S. Beacon Blvd.

City
Grand Haven

State
MI

ZIP
49417

Accountant Signature



C O N T E N T S

	Page
LIST OF PRINCIPAL INDIVIDUALS	iii
MANAGEMENT’S DISCUSSION AND ANALYSIS	iv-viii
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	1-2
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenue, Expenditures and Changes in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Proprietary Funds	
Statement of Net Assets	9
Statement of Revenue, Expenses, and Changes in Fund Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12-25
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule-General Fund	27-29
Budgetary Comparison Schedule-Major Street Fund	30
Budgetary Comparison Schedule-Local Street Fund	31
OTHER SUPPLEMENTAL INFORMATION	
Report on Compliance and on Internal Control Over Financial Reporting based on a Audit of Financial Statements Performed in Accordance With <u>Governmental Auditing Standards</u>	33-34
Schedule of Findings and Questioned Costs	35
Corrective Action Plan	36

Village of Hesperia
List of Principal Individuals

Jim Smith	President
Doris DeLong	Treasurer
Patrecia Grossenbacher	Clerk
Tom Hallowell	Trustee
Don Hills	Trustee
Molly Maynard	Trustee
Mari Ann McGahan	Trustee
William Semans	Trustee
Roger Warnbaugh	Trustee

Village of Hesperia
Management's Discussion and Analysis
March 31, 2006

Using this Management's Discussion and Analysis

This annual report is intended to supplement the Village's financial statements for fiscal year ending March 31, 2006. The format of the financial statements has changed due to the implementation of GASB Statement 34 accounting. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance and the Governmental Fund Balance Sheet) tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village has elected to combine the Internal Service Fund and Village Street Fund into the General Fund for financial reporting purposes.

The Village as a Whole

The Village's total net assets are \$2,122,251 as of March 31, 2006. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 5.5% of that total. The current level of unrestricted net assets for our governmental activities stands at \$115,752 or about 21% of current year operating expenditures.

Government-Wide Financial Analysis:

The first table presented is a summary of the government-wide statement of net assets for the Village. The net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Village's net assets from governmental activities totaled \$201,594 (8%) and \$1,920,657 (92%) from business-type activities, creating a total government-wide net asset total of \$2,122,251.

In examining the composition of these net assets, the reader should note that governmental activities net assets are primarily invested in capital assets (i.e., bridges, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

Table 1
Village of Hesperia Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and						
other assets	\$ 137,451	\$ 196,792	\$ (26,253)	\$ (66,341)	\$ 111,198	\$ 130,451

Village of Hesperia
Management's Discussion and Analysis
March 31, 2006

Table 1
Village of Hesperia Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets-Continued</u>						
Capital assets, net of accumulated depreciation	212,788	217,087	2,799,597	2,485,600	3,012,285	2,702,687
Total	350,239	413,879	2,773,344	2,419,259	3,123,583	2,833,138
<u>Liabilities</u>						
Current	44,875	39,063	94,473	57,765	139,348	96,828
Noncurrent	103,770	126,946	758,214	425,000	861,984	551,946
Total	148,645	166,009	852,687	482,765	1,001,332	648,774
<u>Net Assets</u>						
Capital Assets, Net of Debt	85,842	66,101	1,968,383	2,015,600	2,054,225	2,081,701
Unrestricted (deficit)	115,752	181,769	(47,726)	(79,106)	68,026	102,663
Total net assets	\$ 201,594	\$ 247,870	\$1,920,657	\$1,936,494	\$2,122,251	\$2,184,364

Cash remains very tight in all of the funds except for Major and Village Street Funds as shown below.

	<u>2006</u>	<u>2005</u>
General Fund (overdraft)	\$(28,653)	(overdraft) \$ (1,764)
Major Street Fund	49,740	69,648
Local Street Fund	8,238	5,904
Sewer Fund	(1,001)	694
Water Fund	1,202	1,926
	<u>\$ 29,526</u>	<u>\$ 76,408</u>

The total of the Village's cash decreased by \$46,882 for the year ended March 31, 2006.

Governmental Activities

Governmental activities decreased the Village's net assets by \$46,276, accounting for 75% of the total decrease in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

Village of Hesperia
Management's Discussion and Analysis
March 31, 2006

Governmental Activities-Continued

The Village's total revenues in the General Fund were approximately equal to the preceding year. Expenses rose approximately 25% on an overall basis. This increase was mostly attributable to additional expenses in the public works area and that the former Internal Service Fund for equipment use was consolidated into the General Fund.

Business-Type Activities

The Village's business-type activities consist of the Sewer and Water Funds. Operating revenues for business-type activities were \$270,999. We provide sewage treatment to approximately 95% of village residents through the Newaygo County wastewater treatment plant. We provide water to approximately 90% of village residents, which comes from the Village of Hesperia water system. Due to an illness with our billing clerk in February and March our water and sewer bills were not sent out on time and as a result our revenue at the end of our fiscal year reflected this. We will begin to implement our new water and sewer rates sometime during the next fiscal year so we can maintain a positive O.M.R. balance. Water well #3 will have some major work done during the upcoming year which will increase our pumping capacity considerably. We hope to begin to replace water mains in the near future. We will be making significant improvements to our sanitary sewer system, lift station and wastewater plant funded through a State Revolving Fund Loan.

Table 2
Village of Hesperia Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Revenues</u>			
Program			
Charges for Services	\$ 12,772	\$ 270,999	\$ 283,771
General			
Property taxes	228,736	-	228,736
State revenue sharing	205,868	-	205,868
Reimbursements	7,536	-	7,536
Miscellaneous	<u>38,712</u>	<u>12,488</u>	<u>51,200</u>
Total	493,624	283,487	777,111

Village of Hesperia
Management's Discussion and Analysis
March 31, 2006

Table 2-Continued
Village of Hesperia Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Expenses</u>			
General government	141,005	-	141,005
Public safety	146,354	-	146,354
Public works	217,128	-	217,128
Recreation and culture	35,413	-	35,413
Sewer fund	-	183,624	183,624
Water fund	-	115,700	115,700
Total	<u>539,900</u>	<u>299,324</u>	<u>839,224</u>
Decrease in Net Assets	(46,276)	(15,837)	(62,113)
Net Assets at March 1, 2005	<u>247,870</u>	<u>1,936,494</u>	<u>2,184,364</u>
Net Assets at March 31, 2006	<u>\$ 201,594</u>	<u>\$1,920,657</u>	<u>\$2,122,251</u>

The Village's Funds

An analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds for 2006 include the General Fund, Major Streets, Local Streets, and Sewer and Water Funds.

We are now maintaining a positive cash balance in our street funds in hopes to begin to resurface our roads. We expect to spend some additional Major Street Fund monies in the 2006-2007 fiscal year to pay our share of the replacement of the Michigan Street bridge, scheduled to be done in the Fall of 2006.

The General Fund pays the Village's general operating expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Village Council did not make any budget amendments to take into account events during the year. We will be using a completely different format and look to our budget for next year.

Village expenditures overall were somewhat over budget, resulting in total expenditures of \$48,669 over budget. The General Fund's fund balance decreased from \$90,749 a year ago to \$42,080 at March 31, 2006. Revenues were slightly lower than projections.

Village of Hesperia
Management's Discussion and Analysis
March 31, 2006

Capital Asset and Debt Administration

At March 31, 2006 the Village had \$5,483,820 (net of accumulated depreciation of \$2,471,435) invested in a broad range of capital assets including land, land improvements, buildings, machinery and equipment and water and sewer systems. Our 1990 Water Tower bonds were refinanced in October, 2005 at a much more favorable interest rate. It is in the form of an installment note with Shelby State Bank and will be paid off over a five year period. The Village arranged for a needed sewer project upgrade in 2005 and financed it with revenue bonds issued through Newaygo County at a very good interest rate. We continue to make payments on two revenue bonds - one each in water and sewer, an intercounty drain note and various small installment purchases for vehicles. All of the payments were paid on time and in full.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for the next fiscal year projects property taxes to increase approximately \$11,000 from the current year. State revenue sharing allocations are a budgetary concern at this time. As you may know Michigan Legislature has eliminated the Single Business Tax. It is uncertain what will be taking its place. The State of Michigan has experienced significant budgeting problems and as they look for solutions, state grants may decrease. The amount of revenue sharing is uncertain but is expected to be similar to last year's amount. Salaries are normally the largest total expenditure of all funds and represented approximately 28% of last year's expenditures. We expect wage expense to increase slightly.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and other interested parties with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact us at (231) 854-6205.

CALVIN D. MEEUSEN, C.P.A., PLLC

CALVIN D. MEEUSEN

CERTIFIED PUBLIC ACCOUNTANT

**1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111**

**348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Village Council
Village of Hesperia, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Hesperia, Michigan (the Village) as of and for the year ended March 31, 2006, which, collectively, comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying required supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. My audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hesperia basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated August 28, 2006, on my consideration of the Village of Hesperia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Calvin D. Meeusen C.P.A., PLLC

Calvin D. Meeusen C.P.A., PLLC
Grand Haven, Michigan
August 28, 2006

Village of Hesperia

STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 29,325	201	29,526
Receivables			
Taxes	13,795	-	13,795
Accounts	-	37,950	37,950
Due from state	29,927	-	29,927
Internal balances (net)	64,404	(64,404)	-
Capital assets, net	<u>212,788</u>	<u>2,799,597</u>	<u>3,012,385</u>
Total assets	<u>350,239</u>	<u>2,773,344</u>	<u>3,123,583</u>
LIABILITIES			
Accounts payable	17,972	6,713	24,685
Due to other governmental units	-	11,010	11,010
Accrued interest	-	3,750	3,750
Accrued liabilities	3,727	-	3,727
Non-current liabilities			
Bonds due within one year	23,176	66,139	89,315
Bonds due in more than one year	<u>103,770</u>	<u>765,075</u>	<u>868,845</u>
Total liabilities	<u>148,645</u>	<u>852,687</u>	<u>1,001,332</u>
NET ASSETS			
Invested in capital assets			
net of related debt	85,842	1,968,383	2,054,225
Unreserved (deficit)	<u>115,752</u>	<u>(47,726)</u>	<u>68,026</u>
Total Net Assets	<u>201,594</u>	<u>1,920,657</u>	<u>2,122,251</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Hesperia

STATEMENT OF ACTIVITIES

Year ended March 31, 2006

	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
	Expenses	Charges for services	Governmental activities	Business-type activities	Total
Primary Government					
Governmental activities					
General government	141,005	2,100	(138,905)	-	(138,905)
Public safety	146,354	571	(145,783)	-	(145,783)
Public works	217,128	3,470	(213,658)	-	(213,658)
Recreation and culture	<u>35,413</u>	<u>6,631</u>	<u>(28,782)</u>	<u>-</u>	<u>(28,782)</u>
Total governmental activities	539,900	12,772	(527,128)	-	(527,128)
Business-type activities					
Sewer	183,624	174,324	-	(9,300)	(9,300)
Water	<u>115,700</u>	<u>96,675</u>	<u>-</u>	<u>(19,025)</u>	<u>(19,025)</u>
Total business-type activities	<u>299,324</u>	<u>270,999</u>	<u>-</u>	<u>(28,325)</u>	<u>(28,325)</u>
Total primary government	<u>839,224</u>	<u>283,771</u>	<u>(527,128)</u>	<u>(28,325)</u>	<u>(555,453)</u>
General revenues					
Property taxes			228,736	-	228,736
State revenue sharing			205,868	-	205,868
Investment earnings			2,619	-	2,619
Reimbursements			7,536	4,800	12,336
Miscellaneous			<u>36,093</u>	<u>7,688</u>	<u>43,781</u>
Total general revenue and special items			<u>480,852</u>	<u>12,488</u>	<u>493,340</u>
Change in net assets			(46,276)	(15,837)	(62,113)
Net assets at April 1, 2005			<u>247,870</u>	<u>1,936,494</u>	<u>2,184,364</u>
Net assets at March 31, 2006			<u>201,594</u>	<u>1,920,657</u>	<u>2,122,251</u>

The accompanying notes are an integral part of this statement.

Village of Hesperia
BALANCE SHEET
GOVERNMENTAL FUNDS

March 31, 2006

	General Fund	Major Streets
ASSETS	\$(28,653)	\$ 49,740
Cash - (Overdraft)	13,795	-
Taxes Receivable	13,869	11,205
Due from state	<u>64,404</u>	<u>-</u>
Due from other funds		
Total Assets	<u>\$ 63,415</u>	<u>\$ 60,945</u>
LIABILITIES AND FUND EQUITY		
Liabilities:	\$ 17,908	\$ 32
Accounts payable	3,427	150
Accrued liabilities	<u>-</u>	<u>-</u>
Due to other funds		
Total Liabilities	<u>21,335</u>	<u>182</u>
Fund equity:		
Fund balance	<u>42,080</u>	<u>60,763</u>
Undesignated		
Total Fund Equity	<u>42,080</u>	<u>60,763</u>
Total Liabilities and Fund Equity	<u>\$ 63,415</u>	<u>\$ 60,945</u>

The accompanying notes are an integral part of this statement.

<u>Local Streets</u>	<u>Total Governmental Funds</u>
\$ 8,238	\$ 29,325
-	13,795
4,853	29,927
<u>-</u>	<u>64,404</u>
<u>\$ 13,091</u>	<u>\$ 137,451</u>

\$ 32	\$ 17,972
150	3,727
<u>-</u>	<u>-</u>
<u>182</u>	<u>21,699</u>

<u>12,909</u>	<u>115,752</u>
<u>12,909</u>	<u>115,752</u>
<u>\$ 13,091</u>	<u>\$ 137,451</u>

Village of Hesperia

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance-governmental funds \$ 115,752

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

Cost of capital assets	\$ 509,405	
Accumulated depreciation	<u>(296,617)</u>	212,788

Long term liabilities, including bonds and notes payable, are not
due and payable in the current period and therefore, are not reported
in the funds. (126,946)

Net assets of governmental activities in the Statement of Net Assets	<u>\$ 201,594</u>
---	-------------------

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended March 31, 2006

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>
Revenues:	\$228,736	\$ -	\$ -
Taxes	117,394	61,132	27,342
State revenue sharing	7,536	-	-
Reimbursements	16,630	-	-
Interest and rentals	<u>30,521</u>	<u>2,167</u>	<u>2,168</u>
Other revenue			
	400,817	63,299	29,510
TOTAL REVENUES			
Expenditures			
Current:	136,056	-	-
General government	133,027	-	-
Public safety	126,573	83,112	27,043
Public works	35,413	-	-
Recreation and cultural	<u>18,417</u>	<u>-</u>	<u>-</u>
Other			
	<u>449,486</u>	<u>83,112</u>	<u>27,043</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(48,669)	(19,813)	2,467
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Operating transfers in (out)			
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(48,669)	(19,813)	2,467
	<u>90,749</u>	<u>80,576</u>	<u>10,442</u>
Fund balance - April 1			
	<u>\$ 42,080</u>	<u>\$ 60,763</u>	<u>\$ 12,909</u>
Fund balance - March 31			

The accompanying notes are an integral part of this statement.

Total
Governmental
Funds

\$ 228,736
205,868
7,536
16,630
34,856

493,626

136,056
133,027
236,728
35,413
18,417

559,641

(66,015)

-

-

(66,015)

181,767

\$ 115,752

Village of Hesperia

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

Net change in fund balances-total governmental funds: \$ (66,015)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
in the Statement of Activities; these costs are depreciated over their
estimated useful lives.

Depreciation expense	\$ (28,515)	
Capital outlay	<u>-</u>	(28,515)

Repayment of principal on long term debt is an expenditure
in the governmental funds but the payment reduces long term
liabilities in the Statement of Net Assets 24,038

Payments for bridge pre-construction costs is an expenditure in
the governmental funds but is an asset that will eventually be
capitalized in the Statement of Net Assets. 24,216

Change in net assets of governmental activities \$ (46,276)

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2006

ASSETS	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Current Assets			
Cash (overdraft)	\$ (1,001)	\$ 1,202	\$ 201
Accounts receivable	26,854	11,096	37,950
Due from other funds	<u>36,000</u>	<u>-</u>	<u>36,000</u>
Total current assets	61,853	12,298	74,151
Non Current Assets			
Property, plant and equipment	4,334,854	639,561	4,974,415
Less accumulated depreciation	<u>(1,916,202)</u>	<u>(258,616)</u>	<u>(2,174,818)</u>
Capital assets, net	<u>2,418,652</u>	<u>380,945</u>	<u>2,799,597</u>
Total Assets	2,480,505	393,243	2,873,748
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and other liabilities	2,336	4,377	6,713
Due to other governmental units	-	11,010	11,010
Due to other funds	30,399	70,005	100,404
Accrued interest	3,750	-	3,750
Revenue bonds payable,			
due within one year	<u>45,000</u>	<u>21,139</u>	<u>66,139</u>
Total current liabilities	81,485	106,531	188,016
Non Current Liabilities			
Revenue bonds payable, less amounts			
due in one year	<u>649,780</u>	<u>115,295</u>	<u>765,075</u>
Total non current liabilities	649,780	115,295	765,075
Net Assets			
Invested in capital assets, net of			
related debt	1,723,872	244,511	1,968,383
Unreserved	<u>25,368</u>	<u>(73,094)</u>	<u>(47,726)</u>
Total net assets	<u>\$1,749,240</u>	<u>\$ 171,417</u>	<u>\$1,920,657</u>

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year ended March 31, 2006

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues			
Sales	\$ 172,894	\$ 94,050	\$ 266,944
Connection fees	<u>1,430</u>	<u>2,625</u>	<u>4,055</u>
	174,324	96,675	270,999
Operating Expenses			
Salaries and Wages	22,986	22,067	45,053
Fringe Benefits	7,182	7,182	14,364
Payroll Taxes	1,878	2,302	4,180
Supplies	2,582	1,776	4,358
Services and Charges	7,733	6,954	14,687
Professional Services	4,007	6,673	10,680
Insurance	15,510	12,972	28,482
Utilities	15,445	9,390	24,835
Repairs and Maintenance	2,367	11,280	13,647
Education and Training	140	-	140
Fines	-	11,010	11,010
Printing & Publishing	54	34	88
Depreciation	<u>85,587</u>	<u>15,196</u>	<u>100,783</u>
Total Operating Expenses	<u>165,471</u>	<u>106,836</u>	<u>272,307</u>
Operating Income (Loss)	8,853	(10,161)	(1,308)
Non operating Income (Expenses)			
Other Income	8,765	3,723	12,488
Interest Expense	<u>(18,153)</u>	<u>(8,864)</u>	<u>(27,017)</u>
Total Non operating Income (Expenses)	<u>(9,388)</u>	<u>(5,141)</u>	<u>(14,529)</u>
Net Income (Loss)	(535)	(15,302)	(15,837)
Retained Earnings - April 1, 2005	<u>1,749,775</u>	<u>186,719</u>	<u>1,936,494</u>
Retained Earnings - March 31, 2006	<u>\$1,749,240</u>	<u>\$171,417</u>	<u>\$1,920,657</u>

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF CASH FLOWS
Proprietary Funds
Year ended March 31, 2006

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers	\$ 165,707	\$ 94,757	\$ 260,464
Payments to suppliers	(57,359)	(55,366)	(112,725)
Payments to employees	<u>(23,057)</u>	<u>(22,070)</u>	<u>(45,127)</u>
Net cash provided by operating activities	85,291	17,321	102,612
Cash Flows From Noncapital Financing Activities			
Operating subsidies and transfers to other funds	-	-	-
Cash Flows From Capital and Related Financing Activities			
Principal and interest paid on capital debt	(63,778)	(21,770)	(85,548)
Other receipts	8,764	3,725	12,489
Payments to other funds	<u>(31,972)</u>	<u>-</u>	<u>(31,972)</u>
Net cash used by capital and related financing activities	(86,986)	(18,045)	(105,031)
Net decrease in cash	(1,695)	(724)	(2,419)
Cash at April 1, 2005	<u>694</u>	<u>1,926</u>	<u>2,620</u>
Cash at March 31, 2006	<u>(1,001)</u>	<u>1,202</u>	<u>201</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	8,853	(10,161)	(1,308)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation expense	85,587	15,196	100,783
Change in Assets and Liabilities:			
Receivables-net	(8,616)	(1,918)	(10,534)
Accounts payable	(533)	3,194	2,661
Due to other governmental units	<u>-</u>	<u>11,010</u>	<u>11,010</u>
Net Cash Provided by Operating Activities	\$ <u>85,291</u>	\$ <u>17,321</u>	\$ <u>102,612</u>

The accompanying notes are an integral part of this statement.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Hesperia (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's policies are described below.

1. Reporting Entity

The Village of Hesperia is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks, recreation and general administrative services.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and user charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state revenue sharing and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on streets classified as local streets.

The Village reports the following major proprietary funds:

Enterprise Funds

The Sewer Fund accounts for the activities of the sewage collection system. The main source of revenue for the Sewer Fund comes from user charges.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Enterprise Funds-Continued

The Water Fund accounts for the activities of the water distribution system. The main source of revenue for the Water Fund also comes from user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the Village's sewer function and various other functions of the Village, when applicable. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, money market demand deposits and certificates of deposit. The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. The Village has adopted an investment policy that is more restrictive than the above. See Note C2.

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

b. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property and are levied on December 31 and are payable through September 15. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government. Uncollectable real property taxes as of the following March 1 are turned over by the Village to the County's for collection. The County's advances the Village all these delinquent property taxes. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (60 days). The 2005 state taxable value for real and personal property of the Village totalled approximately \$15,649,167.

Collections of these taxes are accounted for in the General Fund and the Village Streets Fund. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 14.7086 mills per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general government services for the year ended March 31, 2006 was 14.5291 mills.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

c. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements, if any, are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Infrastructure	20-40
Land improvements	10-20
Equipment	5-10

d. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Generally, employees must use earned vacation time in the current year and any unused benefits are forfeited. Sick leave is accumulated at the rate of one-half day per month, up to a maximum of 45 days, subject to certain conditions. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

e. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

f. Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

g. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through passage of a resolution.
- d. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- e. Appropriations for the General Fund lapse at the end of the fiscal year.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

Budgeted amounts are as originally adopted, or as amended by the Village Council as of March 31, 2006.

2. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There has not been any uncovered or unreimbursed claims in any of the past three years.

NOTE C - DEPOSITS

1. Deposits

All deposits are in a single financial institution and are carried at cost; the deposits are composed of a money market checking account and a certificate of deposit..

As of March 31, 2006, the Village's carrying amount of deposits was \$29,526, and the bank balance was \$33,967. All of the bank balance was covered by federal depository insurance.

2. Investment Policy

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; prime commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village in accordance with Public Act 20 of 1943 (as amended) authorizes investments in demand depository accounts, certificates of deposit and savings accounts.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE C - DEPOSITS-CONTINUED

3. Summary

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ <u>29,325</u>	\$ <u>201</u>	\$ <u>29,526</u>

NOTE D-CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

<u>Governmental Activities</u>	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 8,300	\$ -	\$ -	\$ 8,300
Construction in Progress	<u>-</u>	<u>24,216</u>	<u>-</u>	<u>24,216</u>
Total capital assets, not being depreciated	<u>8,300</u>	<u>24,216</u>	<u>-</u>	<u>32,516</u>
Capital assets, being depreciated:				
Buildings	172,769	-	-	172,769
Land improvements	50,919	-	-	50,919
Machinery & Equipment	<u>275,903</u>	<u>-</u>	<u>22,702</u>	<u>253,201</u>
Total capital assets, being depreciated	499,591	-	22,702	476,889
Less accumulated depreciation for:				
Buildings	69,801	4,608	-	74,409
Land improvements	37,114	1,861	-	38,975
Machinery & Equipment	<u>183,889</u>	<u>22,046</u>	<u>22,702</u>	<u>183,233</u>
Total accumulated depreciation	<u>290,804</u>	<u>28,515</u>	<u>22,702</u>	<u>296,617</u>
Total capital assets, being depreciated, net	<u>208,787</u>	<u>28,515</u>	<u>-</u>	<u>180,272</u>
Capital Assets, net	<u>217,087</u>	<u>28,515</u>	<u>-</u>	<u>212,788</u>

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE D-CAPITAL ASSETS - CONTINUED

<u>Business-Type Activities:</u>	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2006</u>
Capital Assets Not Being Depreciated:				
Land	<u>58,155</u>	<u>-</u>	<u>-</u>	<u>58,155</u>
Total capital assets, not being depreciated	<u>58,155</u>	<u>-</u>	<u>-</u>	<u>58,155</u>
Capital assets being depreciated:				
Sewer Fund				
Treatment Plant and Collection System	3,854,552	414,780	-	4,269,332
Machinery & Equipment	11,367	-	-	11,367
Water Fund				
Buildings	8,805	-	-	8,805
Water distribution System	615,594	-	-	615,594
Machinery & Equipment	<u>11,162</u>	<u>-</u>	<u>-</u>	<u>11,162</u>
Total capital assets, being depreciated	<u>4,501,480</u>	<u>414,780</u>	<u>-</u>	<u>4,916,260</u>
Less accumulated depreciation:				
Sewer Fund				
Treatment Plant & Collection System	1,819,248	85,587	-	1,904,835
Machinery & Equipment	11,367	-	-	11,367
Water Fund				
Buildings	4,033	193	-	4,226
Water Distribution System	228,225	15,003	-	243,228
Machinery & Equipment	<u>11,162</u>	<u>-</u>	<u>-</u>	<u>11,162</u>
Total accumulated depreciation	<u>2,074,035</u>	<u>100,783</u>	<u>-</u>	<u>2,174,818</u>
Total capital assets, being depreciated, net	<u>2,427,445</u>	<u>313,997</u>	<u>-</u>	<u>2,741,442</u>
Capital assets, net	<u>\$ 2,485,600</u>	<u>\$ 313,997</u>	<u>\$ -</u>	<u>\$2,799,597</u>

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE D-CAPITAL ASSETS - CONTINUED

Government activities:

Depreciation

Depreciation expense was charged to functions as follows:

General government	\$ 4,949
Public safety	12,500
Public works	<u>11,066</u>
	<u>\$ 28,515</u>

Business-type activities:

Depreciation

Depreciation expense was charged to functions as follows:

Sewer	\$ 85,587
Water	<u>15,196</u>
	<u>\$100,783</u>

NOTE E - DUE FROM/TO OTHER FUNDS

The following are the interfund receivables/payables at year-end.

Water Fund

Due to Sewer Fund	\$ 36,000
Due to General Fund	<u>34,005</u>
	<u>\$ 70,005</u>

Sewer Fund

Due to General Fund	\$ <u>30,399</u>
Due from Water Fund	<u>\$ 36,000</u>

General Fund

Due from Water Fund	\$ 34,005
Due from Sewer Fund	<u>30,399</u>
	<u>\$ 64,404</u>

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE F - DEFINED CONTRIBUTION PENSION PLAN

The Village provides pension benefits to all of its appointed officers and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Village contributes 7% of employees gross earnings and employees may make voluntary contributions of 1% to 10% of after-tax earnings. 100% of the benefits are vested immediately.

NOTE G - HEALTH INSURANCE

The Village pays an allowance for health insurance premiums as an employee benefit on behalf of all appointed officials and full-time employees through Municipal Benefits Services for Blue Cross/Blue Shield. In lieu of taking health insurance benefits, employees have the option to receive additional wages of \$100 per month.

NOTE H - LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2006:

	<u>Balance</u> <u>April 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>March 31, 2006</u>	<u>Due within</u> <u>one year</u>
Governmental Activities					
General obligation bonds	\$ 114,088	\$ -	\$ 7,130	\$ 106,958	\$ 7,130
Installment purchase agreements	<u>36,898</u>	<u>-</u>	<u>16,910</u>	<u>19,988</u>	<u>16,045</u>
Governmental activity long-term liabilities	\$ <u>150,986</u>	\$ <u>-</u>	\$ <u>24,040</u>	\$ <u>126,946</u>	\$ <u>23,175</u>
Business-type Activities					
Revenue bonds and other debt	\$ <u>470,000</u>	\$ <u>564,988</u>	\$ <u>203,774</u>	\$ <u>831,214</u>	\$ <u>73,000</u>

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE H - LONG-TERM DEBT-CONTINUED

Governmental activities:

General obligation bonds:

Intercounty Drain Note - The intercounty drain project was completed in fiscal year 2002 and the subsequent note payable was established to pay for the Village's portion. The note is payable to the Oceana County Drain Commission over a 20 year period with an interest rate of 5.25% per annum. The first payment was made January 22, 2002 and payments will be made annually until December 1, 2020. The note is backed by the full faith and credit of the Village.

\$ 106,958

Installment purchase agreement:

Police Vehicle Note - This note is a capital lease with quarterly payments of \$2,010 at 5.15% per annum. The lease is scheduled to be paid in full in August, 2007. The lease is secured by the vehicle.

\$ 11,533

Equipment Fund Note - The Village borrowed \$61,292 on January 17, 2000 from Shelby State Bank to purchase two 1990 International dump trucks, which are pledged as collateral. Payments are \$864.86 per month including principal and interest for 84 months. The last payment is due in January, 2007. Interest is 4.95% per annum.

\$ 8,455

\$ 19,988

Business-type activities:

Revenue bonds and other debt

1978 Sewer System Reserve Bond

The Village Council entered into a contract with the County of Newaygo relating to the acquisition, construction, operation and financing of a sanitary sewer system. The annual principal payments of \$25,000 are due January 1 each year with the final payment due in the year 2018. Interest payments at the rate of 5% are due semiannually on January 1 and July 1.

\$ 300,000

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE H - LONG-TERM DEBT-CONTINUED

2005 Contract with Newaygo County

On June 23, 2005 the Village entered into a contract with Newaygo County for the construction of a sewer lift station and project upgrade in the amount of \$414,780. Principal payments are due April 1 of each year varying from \$20,000 to \$30,000 with the final payment due in the year 2025. Interest payments are due semi-annually at a rate of 1.625% per annum and are due October 1 and April 1.

\$ 394,780

Water Tower Note

On October 6, 2005 the Village borrowed \$150,208 from Shelby State Bank to retire a previous bond obligation which was issued for the purpose of constructing a water tower. Principal and interest payments are due quarterly. The interest rate is 3.8% annually. The last payment is due in October, 2010.

136,434

\$831,214

Annual debt service requirements to maturity for debt outstanding as of March 31, 2006 is as follows:

Year ending March 31, 2006	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2007	\$ 23,176	\$ 6,257	\$ 66,139	\$ 24,495
2008	11,073	5,317	74,159	23,181
2009	7,131	4,880	75,273	20,491
2010	7,130	4,492	76,449	17,740
2011	7,131	4,118	74,414	14,953
2012-2016	35,652	14,983	250,000	50,607
2017-2021	35,653	5,623	175,000	11,826
2022-2026	-	-	39,780	886
Total	<u>\$126,946</u>	<u>\$ 45,670</u>	<u>\$ 831,214</u>	<u>\$ 164,179</u>

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2006

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS-CONT.

In the body of the financial statements, the Village's actual expenditures for the budgetary funds have been shown in a line item basis. The budget was adopted on the activity basis.

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (ML 141.42), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year, over-expenditures occurred as listed below:

<u>Activity</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Clerk	\$ 33,800	\$ 34,073	\$ 273
Treasurer	25,650	30,591	4,941
Public Safety	124,461	133,027	8,566
Street Lighting	19,000	19,430	430
Major Streets	76,500	83,112	6,612

NOTE J - ENDOWMENT FUND

The Fremont Area Community Foundation holds a designated endowment fund which has been reserved for the use of the Village of Hesperia. The fund is not available for general operating purposes but is intended to fund charitable community projects and programs as deemed appropriate by the Village Council and the Community Foundation Board of Trustees. As of March 31, 2006, the fair market value of this endowment fund was \$31,182.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND

Year ended March 31, 2006

	Budgeted Amounts		Actual	Variance with final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes			\$ 228,736	
State Shared Revenue			117,394	
Charge for Services			4,781	
Interest			2,619	
Rents			14,011	
Refunds and Reimbursements			7,536	
Miscellaneous and Fines			<u>25,740</u>	
Total Revenues	411,800	466,800	400,817	(65,983)
Expenditures				
General Government				
General Government				
Wages			3,179	
Fringe Benefits			256	
Payroll Taxes			1,325	
Supplies			5,514	
Services			16,621	
Printing and Publishing			1,031	
Insurance			11,765	
Utilities			5,213	
Education and Training			1,092	
Miscellaneous			970	
Repairs and Maintenance			1,046	
Capital Outlay			<u>6,361</u>	
	<u>60,400</u>	<u>60,400</u>	54,373	6,027
Clerk				
Salaries			27,927	
Fringe Benefits			3,406	
Payroll Taxes			1,702	
Miscellaneous			<u>1,038</u>	
	<u>33,800</u>	<u>33,800</u>	34,073	(273)
Treasurer				
Salaries			22,845	
Fringe Benefits			6,174	
Payroll Taxes			1,326	
Miscellaneous			<u>246</u>	
	<u>25,650</u>	<u>25,650</u>	30,591	(4,941)

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

Year ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
General Government-Continued				
Buildings and Grounds				
Salaries			\$ 4,672	
Fringe Benefits			1,075	
Payroll Taxes			578	
Supplies			1,492	
Repairs and Maintenance			1,784	
Insurance			2,162	
Utilities			4,719	
Services			537	
	<u>35,450</u>	<u>35,450</u>	<u>17,019</u>	<u>18,431</u>
Total General Government	155,300	155,300	136,056	19,244
Public Safety				
Police Department				
Salaries			75,683	
Fringe Benefits			19,951	
Payroll Taxes			4,505	
Supplies			9,932	
Services			3,316	
Transportation			488	
Printing & Publishing			242	
Insurance			9,517	
Utilities			5,035	
Repairs			1,652	
Education and Training			552	
Capital Outlay			2,154	
	<u>124,461</u>	<u>124,461</u>	<u>133,027</u>	<u>(8,566)</u>
Total Public Safety	124,461	124,461	133,027	(8,566)
Public Works				
Street Lighting				
Utilities	19,000	19,000	19,430	(430)
Streets and Equipment				
Salaries			26,701	
Fringe Benefits			7,449	
Payroll Taxes			2,251	
Supplies			12,807	
Services			1,695	
Repairs			42,472	

Village of Hesperia
 Budgetary Comparison Schedule
 GENERAL FUND-CONTINUED
 Year ended March 31, 2006

	Budgeted Amounts		Actual	Variance with final Budget - Favorable (Unfavorable)
	Original	Final		
Public Works-Continued				
Insurance			5,672	
Utilities			7,832	
Miscellaneous			264	
	<u>56,622</u>	<u>111,622</u>	<u>107,143</u>	<u>4,479</u>
Total Public Works	<u>75,622</u>	<u>130,622</u>	<u>126,573</u>	<u>4,049</u>
Recreation and Culture				
Crossing Guards				
Salaries			4,533	
Fringe Benefits			88	
Payroll Taxes			180	
	<u>5,500</u>	<u>5,500</u>	<u>4,801</u>	<u>699</u>
Park				
Wages			12,091	
Fringe Benefits			3,706	
Payroll Taxes			734	
Supplies			745	
Services			7,132	
Insurance			2,310	
Utilities			1,883	
Repairs and Maintenance			2,011	
	<u>32,000</u>	<u>32,000</u>	<u>30,612</u>	<u>1,388</u>
Total Recreation and Culture	37,500	37,500	35,413	2,087
Debt Service				
Principal	16,910	16,910	16,910	-
Interest	<u>1,507</u>	<u>1,507</u>	<u>1,507</u>	<u>-</u>
	18,417	18,417	18,417	-
Other Functions				
Other Activities-Miscellaneous	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
Total Other	500	500	-	500
Total Expenditures	<u>411,800</u>	<u>466,800</u>	<u>449,486</u>	<u>17,314</u>
Excess Revenues Over (Under) Expenditures	-	-	(48,669)	(48,669)
Fund Balance - Beginning of Year	<u>90,749</u>	<u>90,749</u>	<u>90,749</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 90,749</u>	<u>\$ 90,749</u>	<u>\$ 42,080</u>	<u>(48,669)</u>

Village of Hesperia
Budgetary Comparison Schedule
MAJOR STREET FUND

Year ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
State Shared Revenue			\$ 61,132	
Street Sweeping			<u>2,167</u>	
	<u>76,500</u>	<u>76,500</u>	63,299	<u>(13,201)</u>
Expenditures				
Salaries and Wages			9,513	
Fringe Benefits			3,579	
Payroll Taxes			1,271	
Supplies			3,257	
Prof. and Contracted Services			26,229	
Utilities			960	
Rentals			7,378	
Repairs and Maintenance			21,085	
Debt Service				
Principal			5,348	
Interest			<u>4,492</u>	
Total Expenditures	<u>76,500</u>	<u>76,500</u>	<u>83,112</u>	<u>(6,612)</u>
Excess Revenues Over (Under) Expenditures	-	-	(19,813)	(19,813)
Other Financing Sources (Uses) Operating Transfer In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	-	-	(19,813)	(19,813)
Fund Balance - Beginning of Year	<u>80,576</u>	<u>80,576</u>	<u>80,576</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 80,576</u>	<u>\$ 80,576</u>	<u>\$ 60,763</u>	<u>\$ (19,813)</u>

Village of Hesperia
Budgetary Comparison Schedule
LOCAL STREET FUND

Year ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State Shared Revenue			\$ 27,342	
Miscellaneous			<u>2,168</u>	
	<u>48,000</u>	<u>48,000</u>	29,510	(18,490)
Expenditures				
Salaries and Wages			8,587	
Fringe Benefits			3,589	
Payroll Taxes			476	
Supplies			3,468	
Prof. and Contracted Services			664	
Utilities			417	
Rentals			4,477	
Repairs and Maintenance			2,085	
Debt Service				
Principal			1,782	
Interest			<u>1,498</u>	
Total Expenditures	<u>48,000</u>	<u>48,000</u>	<u>27,043</u>	<u>20,957</u>
Excess Revenues Over (Under) Expenditures	-	-	2,467	2,467
Other Financing Sources (Uses) Operating Transfer In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	-	-	2,467	2,467
Fund Balance - Beginning of Year	<u>10,442</u>	<u>10,442</u>	<u>10,442</u>	<u>-</u>
Fund Balance - End of Year	\$ <u>10,442</u>	\$ <u>10,442</u>	\$ <u>12,909</u>	\$ <u>2,467</u>

OTHER SUPPLEMENTAL INFORMATION

CALVIN D. MEEUSEN, C.P.A., PLLC

CALVIN D. MEEUSEN

CERTIFIED PUBLIC ACCOUNTANT

1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111

348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council
Village of Hesperia, Michigan

1. I have audited the financial statements of the governmental activities, the business type activities and each major fund of the Village of Hesperia as of and for the year ended March 31, 2006, which collectively comprises the Village of Hesperia's basic financial statements and have issued my report thereon dated August 28, 2006. I conducted my audit with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

2. As part of obtaining reasonable assurance about whether the Village of Hesperia's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

3. In planning and performing my audit, I considered the Village of Hesperia's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Hesperia's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 06-1.
4. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I believe that the reportable condition described above is a material weakness.

5. This report is intended for the information of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Calvin D. Meeusen C.P.A. PLLC". The signature is written in a cursive, flowing style.

Calvin D. Meeusen C.P.A., PLLC
August 28, 2006

Village of Hesperia

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ending March 31, 2006

SUMMARY OF AUDIT RESULTS

1. The Auditor's report expresses an unqualified opinion on the financial statements of the Village of Hesperia, Michigan.
2. One reportable condition was disclosed during the audit of the financial statements and is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Village of Hesperia, Michigan, were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITION

06-1. Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can consistently act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only two full time persons and one part-time person. None of them perform accounting functions on a full-time basis. The Village of Hesperia has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation.

QUESTIONED COSTS

There were no questioned costs.

Village of Hesperia
Corrective Action Plan
2006

United States Department of Agriculture
Rural Development Division

Village of Hesperia, Michigan, respectfully submits the following summary schedule of audit findings for the year ended March 31, 2006.

Name and address of independent public accounting firm:
Calvin D. Meeusen, C.P.A., PLLC
1014 S. Beacon Blvd.
Grand Haven, MI 49417

Audit period: April 1, 2005 to March 31, 2006.

The findings from the March 31, 2006 findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the prior schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable Conditions

06-1 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Action taken: Management concurs with the recommendation. However, the condition is inherent. A practical remedy is not feasible.

If the Department of Agriculture, Rural Development Division has questions regarding this plan, please call Patrecia Grossenbacher at (231) 854-6205.

Sincerely yours,

Patrecia Grossenbacher, Clerk
Village of Hesperia, MI

CALVIN D. MEEUSEN, C.P.A., PLLC

CALVIN D. MEEUSEN

CERTIFIED PUBLIC ACCOUNTANT

1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111

348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

August 28, 2006

Honorable Village Council
Village of Hesperia
Hesperia, Michigan

In connection with my examination of the financial statements as of March 31, 2006, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Hesperia for the year ended March 31, 2006, and have issued my report thereon dated August 28, 2006. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Hesperia to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Hesperia is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls may not be adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Hesperia may occur and not be detected within a timely period by Village personnel in the normal course of their duties. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

Cash - The cash reserves for the General Fund is in an overdraft position and the cash in the combined Water and Sewer Funds is a token positive balance. There are some cash reserves in the Major and Local Streets Funds but these are restricted monies and not available for general operating purposes. Furthermore, approximately \$49,000 of the Major Streets Fund cash is already reserved for the Village match for the Michigan Street bridge project, scheduled to commence in the 2006-07 fiscal year.

The cash balances in the Water and Sewer Funds are very thin and the utility funds are not generating enough cash to sustain their general operating expenses and debt service. This has been the case for most of the last 10 years. The utility funds have borrowed from the General Fund to cover any cash shortfall but this strategy can no longer be sustained. Officials from Rural and Economic Development (USDA) has made comments on this subject as long ago as 1995. This situation is exacerbated by the new note payable of \$414,780 attributable to the Sewer lift station and project upgrade which adds \$25,000 to \$30,000 a year in additional principal and interest payments.

The Village commissioned an engineering study on the adequacy of sewer and water rates in June, 2005. The engineering firm reported to the Village Council with its recommendations for rate increases and these recommendations were approved by the Village Council in it's September, 2005 meeting. These new rates were not implemented and still have not been implemented as of the dating of this letter. The Village has had to forgo a substantial amount of revenue due to this lack of action and follow through. The rate increases should be put into effect at once.

The cash situation is dire and I recommend that this be given immediate and ongoing priority by the Village Council and all Village personnel. Some avenues to consider are a combination, to the extent practical, of new revenues in all areas, cost containment and a moratorium on capital expenditures. If strong measures are not implemented immediately by the Village Council the Village could potentially face severe cash flow problems by the summer of 2007. Immediate action is recommended in order to stabilize your financial situation and to ensure the future capability of satisfying the Village's obligations.

Accounting Software - The Village's current accounting system is entirely manual, with the exception of water and sewer billing. The Village has committed \$6,685 to purchase an accounting software package from BS& A. This was acquired in October, 2005 but has not yet been installed or paid for. I realize that the implementation has been delayed due to the transition period between the former and current Village Clerk and the lack of a usable General Ledger for the accounting records. I recommend that this software package be used for its intended purpose as soon as possible.

Payroll Reporting - This is now being done in-house and is a time consuming process. This can be done efficiently and in a very cost effective manner by a payroll service to free up Village staff time. This recommendation is a carryover from last year. I again recommend the Village consider the contracting of an outside payroll service to perform all functions of payroll - paychecks, quarterly reporting and W-2 preparation.

Do to/Due From's - Interfund borrowing is largely unchanged from last year and given that cash reserves for the affected funds is nil, it is likely to continue to remain so. The Village Council is encouraged to seek out new revenues and to contain expenses so as to have the ability to repay these interfund loans in the near future.

Budgeting Concerns - The Village again had significant budget violations of P.A. 621. There were very few budget amendments passed by the Village Council during the past year and it is important that you monitor the budget in a more meaningful way on an ongoing basis. The budgeting process itself was lacking in that it omitted explicit data for revenues. The budget data for the expenditures was lacking in detail in the extreme, to the point of irrelevancy. I recommend that the Village Council review Public Act 621 to ensure compliance with the intent of the law. Amendments should be made when appropriate and adequately documented in the Council minutes. The above situation was unchanged with the adoption of the budget for the 2006-07 fiscal year.

Employee Training - Village management should, to the extent possible, arrange to have employees cross trained in each others jobs. This would help ensure continuity in providing service to Village residents and in maintaining the accounting records in case of illness, vacations or other extended absences.

Equipment and Village Streets Funds - I recommended that the Equipment Fund be consolidated into the General Fund in my letter of last year. This has been done. The Village Streets Fund has also been consolidated into the General Fund, after extensive discussions with Village management. I believe this will simplify the accounting and budgeting process for the Village without losing any accuracy and accountability.

All of these comments and recommendations have been discussed and reviewed with the finance committee.

In conclusion, I wish to say that my staff and I are very appreciative of the courtesy and assistance extended to us during the engagement. The above comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss these comments and recommendations.

Respectfully submitted,

A handwritten signature in black ink that reads "Calvin D. Meeusen C.P.A., PLLC". The signature is fluid and cursive, with the last name "Meeusen" being the most prominent part.

Calvin D. Meeusen, C.P.A., PLLC